

# PERAC AUDIT REPORT



## Franklin County Contributory Retirement System

JAN. 1, 2000 - DEC. 31, 2003 / PERAC 03: 10-006-30



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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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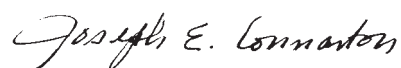
May 16, 2006

The Public Employee Retirement Administration Commission has completed an examination of the **Franklin County** Retirement System pursuant to G.L. c. 32, s. 21. The examination covered the period from January 1, **2000** to December 31, **2003**. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Harry Chadwick and Robert Madison who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton  
Executive Director



## **Franklin County Retirement System**

### **EXPLANATION OF FINDINGS AND RECOMMENDATIONS**

#### **FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003**

1. **Operations**

The Franklin County Retirement Board has experienced significant staff turnover over the last five years. We understand there are challenges recruiting employees; however, the five previous employees hired by the Franklin County Retirement Board have had little or no retirement experience. This practice has led to Chapter 32 compliance issues as well as accounting and reporting issues outlined in this review.

**Recommendation:**

The Board must do what is necessary to maintain an experienced work force as well as prevent turnover and retraining of personnel to insure compliance issues are resolved. In addition, the Board should consider increasing staff by one additional employee as backup to the employee turnover situation. We also recommend the Board hire an outside retirement consulting firm or Certified Public Accountant to review accounting practices from 2000 to the present.

**Board Response:**

The Board has followed the two suggestions given here and have retained the services of Michael Daley and Todd Hassett of Financial Advisory Associates, Inc. to review accounting practices and provide PERAC with restated financial statements. In addition, the Board is expanding the number of office staff to four to provide greater resiliency during periods of staff turnover and to respond to current and future workload. The Board appreciates the suggestions and believes their implementation will address the concerns mentioned.

2. **Internal Control Questionnaire**

With the untimely departure of the System's Administrator due to illness for the month of April '05 and subsequent retirement on May 9, 2005, the Internal Control Questionnaire has not been completed.

**Recommendation:**

The Internal Control Questionnaire should be completed. The Chairperson and the new administrator should review and complete the questionnaire, jointly.

**Board Response:**

The Chairman and Administrator will have completed the Internal Control Questionnaire and forwarded it to PERAC by March 14, 2006. In contemplating and answering the questions posed in the questionnaire, it was recognized that the questionnaire serves as a guideline not only at audit time but also throughout the year. It is our intention to review all of our procedures on a regular basis using the questionnaire as the central guide.

## Franklin County Retirement System

### **EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT.)**

**FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003**

3. Cash Books

In contacting PERAC's Investment Unit to determine that the system's accounting submissions are up to date and that there are no problems with the investments, it was found that the cash books, receipts and disbursements and trial balance, have not been submitted to PERAC since August 2004. In addition, investment manager reports for Met Life, Prudential and IRM Core Bond Fund have not been received by PERAC for the following time periods: Met Life – 8/04 to present; Prudential – 7/04 through 12/04; IRM – 2/04, 5/04, and 9/04 through 12/04.

Recommendation:

The cashbooks, receipts and disbursements and trial balance should be completed and sent to PERAC. The investment manager reports mentioned and the time period represented should be requested and forwarded on to PERAC, as well.

**Board Response:**

As a result of the work done by FAA, Inc., we will be furnishing accurate, restated reports to the PERAC investment unit for the entire year of 2004 and all of 2003. When accurate ending balances are generated for 2004, a complete set of financial statements and investment reports, up to the current date, will be forwarded to PERAC, and will be timely filed thereafter.

4. Accounting

The auditors observed that journal entries contained improper descriptions. For example, all descriptions for appropriations in 2003 were described as "Cash Sheet" or "Accounts Receivable" in 2003 were described as Cash Sheet. It was difficult to determine, from reviewing Journal Entries and the General Ledger, who was paying the appropriations or what was in Accounts Receivable. Multiple accounting entries are not specifically identified; rather, they are batched together.

Recommendation:

Each journal entry must be descriptive enough so that the reader of the financial records can determine the purpose of the financial transaction. For example, if the Town of Charlemont's appropriation payment is \$36,174 in FY 2004, the appropriate entry is debit cash account 1040 for \$36,174 and credit appropriation account 4894 for \$36,174 and describe the entry as Town of Charlemont full payment. In addition, when multiple entries are necessary, each value must be described rather than summarized into one total.

**Board Response:**

This is a recognized issue and agreed that better descriptions are necessary. It should be noted that the issue is somewhat of a problem with the limited capabilities of the TACS accounting program, in that the lack of options for descriptions limits efficient use of the journal entry function. It should not be necessary to debit each and every check received to cash (1040) just

## **Franklin County Retirement System**

### **EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT.)**

#### **FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003**

to be able to provide a detailed description on the credit side where the individual checks should be recorded. Each group deposit made to the bank should be recorded in total to cash (1040) and in detail to the subsidiary detail accounts with a separate description for each. The TACS software does not provide for this type of efficiency. The staff will do what is necessary to provide accurate descriptions to make the permanent ledgers readable and understandable.

5. **Cash Reconciliation**

A. As of December 31, 2003 there was a discrepancy of \$193.80 between the balance in the checking account and the balance in the Trial Balance.

B. Cash in 2005 could not be verified because accounting records are not up-to-date. When the audit started, it was determined that accounting records were 9 months in arrears. All Massachusetts retirement systems must submit accounting records to PERAC on a monthly basis. No records have been submitted since August 2004.

C. The Retirement Board Members do not review a copy of cash reconciliations at monthly meetings.

**Recommendation:**

A. The Treasurer, as custodian of the cash, must ensure that the checking account reconciles to the Trial Balance.

B. Generally Accepted Accounting Principles (GAAP) maintains that accounting entries must be made when they are known. The Franklin County Retirement Board must make sure that cash is reconciled in a timely manner and accounting is current. Allowing accounting records to be in arrears by nine months is unacceptable.

C. Retirement Board Members should review cash account reconciliations at monthly Board meetings. PERAC encourages the Board to review cash reconciliations and trial balances on a monthly basis.

**Board Response:**

A. As of this writing (February 2006), the system's internal cashbook agrees with the bank statements (adjusted for outstanding checks) through December 31, 2005. As the restated trial balance is brought forward to each month of 2005, the cash account (1040) will be reconciled to the cashbook balance and the adjusted bank statement balance for each month.

B. This is a recognized issue. As it is that the TACS accounting software is limited to operating in only one year at a time, and the software is presently being used by FAA, Inc. to restate the 2003 ledgers and financial statements, we are exploring options to record accounting transactions for multiple years concurrently so that 2004 and 2005 can be brought up-to-date. When FAA, Inc. has completed the examination and restating of our statements, we will be able to record transactions timely.

## Franklin County Retirement System

### **EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT.)**

#### **FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003**

C. Cash reconciliations, as well as cash flow statements are currently available for monthly Board meetings. Expense reports are currently being maintained outside of the TACS accounting program until the TACS program is available to be used for the current year, and the expense reports are available for monthly Board meetings. Trial balances and revenue reports will be part of the available reports once the TACS program is available for current year use.

6. General Ledger Accounting

General Ledger reporting is from January 31<sup>st</sup> to December 31<sup>st</sup> completely omitting the month of January (1/1 – 1/31).

Recommendation:

All calendar year reporting must include the full year; that is, reporting must be from January 1<sup>st</sup> to December 31<sup>st</sup>.

**Board Response:**

There are no January transactions missing from the general ledger report examined by the auditors. When asked to generate a general ledger report for the entire year, the TACS program defaults to the first and last dates recorded in the ledgers (exclusive of the 1/1/2003 balances forward) as the dates to put in the title of the report. At the time, the user printing the report overlooked this problem and didn't generate a new report when it was recognized, which is as simple as typing in the desired dates. Unfortunately, once the accounting year is closed and the ledger rolled over to the next year, it's not possible to go back and reprint reports from the prior year.

7. Annual Statement Financial Reporting

A. Balance Sheet Funds. Investment funds identified in the Balance Sheet are \$57,726.74 less than the funds reported in the Change of Fund Investment Schedules or Funds identified in Receipts and Disbursement Schedules for 2000, 2001, 2002 and 2003.

B. Year Ended December 31, 2001 Annual Statement Balance Test contains multiple "off book" adjustments totaling \$61,804.20 to force previous years (2000) assets plus current year receipts and income to agree to 2001 balance sheet assets.

C. Year Ended December 31, 2002 Fund Balances (Page 3) contains an unknown Pension Reserve Fund gain of \$4,247,607.30 whereas the Schedule of Receipts (page 4) contains a Pension Reserve Fund loss of \$(4,088,125.25).

D. Annuity Savings Fund transfers identified in the Supplemental Schedule for 2000, 2001 and 2002 do not agree out to the funds identified in the Annual Statement Fund Balance report.

E. Paid accrued interest on domestic fixed income securities purchased as tabulated on Schedule 3B during 2002 and 2003 and reported on Investment Income (Page 6) were

## **Franklin County Retirement System**

### **EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT.)**

#### **FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003**

overstated in 2002 by \$1,514.35 and understated in 2003 by \$10,954.80 (Schedule No. 3B reported \$66,695.78 in 2003 and \$80,078.06 in 2003).

F. Realized Gains and Losses in the Investment Income Statement (Page 6) are not reflected in Investment Purchased Schedules No. 3A, 4A, 3C and 4C in 2000, 2001, 2002 and 2003. In addition, Realized Gains and Losses in the 2001 Trial Balance do not reflect the balances in the Investment Income Statement (Page 6).

G. A review of fund balances in 2000 and 2001 reveals an accounting discrepancy of \$57,706.63. Total fund balances on December 31, 2000 of \$41,548,231.06 plus 2001 receipts of \$6,572,273.88 less 2001 disbursements of \$4,365,475.07 yields a fund balance of \$43,755,029.87 or \$57,706.63 more funds than reported in the Annual Statements.

#### **Recommendations:**

A. Balance Sheet Funds and funds identified in supporting schedules must agree. Annual Statements from 2000 to 2003 contain discrepancies which must be explained and, if necessary, accounted for in 2005 financial records.

B. An in-depth review of each "off book" adjustment must be performed by the Franklin County Retirement System to determine why it was necessary to force balance sheet asset totals. Discrepancies must be explained and, if necessary, accounted for in 2005 financial records.

C. Annual Statement Fund Balances must reflect accurate Receipts and Disbursement Schedules' values and those reported in Franklin County's accounting records. It is an unacceptable accounting practice to force Annual Statement values to balance. Discrepancies must be explained and, if necessary, accounted for in 2005 financial records.

D. Annuity Savings Fund transfers detailed in the Supplemental Schedule must agree to the fund values in the Annual Statement Fund Balance report. Discrepancies must be explained and, if necessary, accounted for in 2005 financial records.

E. The Investment Income Statement (Page 6) reports Franklin County's investment income or loss for a given year. Schedule No. 3B summarizes, by investment type, investment data such as par value, paid accrued interest and costs excluding accrued interest but including commissions. Proper record keeping demands that individual investments as well as totals displayed in Schedule No. 3B agree directly to the totals displayed in the Investment Income Statement (Account No. 4823).

F. Realized gains and losses in the Investment Income Statement (Page 6) should be properly recorded in Schedule Nos. 3A, 4A, 3C, and 4C in 2000, 2001, 2002, and 2003.

G. Funding balances reported in the Annual Statement must reflect the balances in the Balance Sheet and reported Cash Receipts, Cash Disbursements and transfers between funds. Discrepancies must be explained and, if necessary, accounted for in 2005 financial records.

PERAC auditors recommend a review of accounting by a Certified Public Accounting firm for the CY 2000 to the current year. The reason for this outside review is inaccurate accounting records; the abrupt retirement of the systems Executive Director and adherence to Chapter 32



## Franklin County Retirement System

### **EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT.)**

#### **FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003**

and CMR 840 regulations as outlined in this examination of the Franklin County Retirement System.

#### **Board Response:**

As mentioned in the response to the first finding listed here, the Board has engaged the services of FAA, Inc. The work done by Michael Daley and Todd Hassett of FAA, Inc. has addressed all of these issues.

#### 8. Annual Statement 2004

The 2004 Annual Statement of Financial Condition has not been completed and filed with PERAC. The cashbooks are not up to date, including general ledger journal entries and the 2004 books have not been closed. There has been a requested extension until January 31, 2006.

#### Recommendation:

The cashbooks should be brought up-to-date. All general ledger entries should be made. Receipts and disbursements and trial balances brought up-to-date in order to close the books. Then, the Annual Statement can be completed.

#### **Board Response:**

In addition to the review of 2003 and prior accounting records, Michael Daley and Todd Hassett of FAA, Inc. will be working with system staff to complete the 2004 accounting and prepare the annual report.

#### 9. Investment Competitive Process

The selection of the RhumbLine S&P 500 Pooled Index Fund investment has not satisfied PERAC's investment regulatory requirements that index fund managers be chosen as a result of a competitive process.

#### Recommendation:

All new investment managers must be selected using a competitive process. The Franklin County Retirement System must follow PERAC's Investment Regulations. It is recommended that the Franklin County Retirement Board review its Request For Proposal (RFP) procedures. PERAC's Investment Director's memo dated March 7, 2005 entitled 'Overview of Investment Regulation Issues' is an excellent source of information relative to investment regulations.

#### **Board Response:**

This is a recognized issue. Moving forward, the system will adhere to PERAC guidance.

#### 10. Contracts

A review of Franklin County Retirement contracts was made to insure that there is an executed contract on file; the RFP process was documented and bids were solicited in a proper manner. The auditor could not locate three investment and/or service contracts or supporting RFP competitive bids.

## Franklin County Retirement System

### **EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT.)**

**FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003**

**Recommendation:**

The Board should locate each contract and develop a plan to review all contracts for completeness. This includes but is not limited to a review of all investment management or consultant fees agreed upon in the original contract(s) and a review of all consultants to ensure that starting after January 1, 1999, on or before the fifth anniversary of hiring of a consultant and every fifth year thereafter, the Franklin County System requests authorization from PERAC to continue to retain consultants.

**Board Response:**

Contracts have been located and staff are in the process of reviewing them.

**11. Investments**

The proper general ledger accounts are not used when reporting Pooled Funds.

**Recommendation:**

PERAC recommends specific account numbers and asset descriptions for each class of investment.

**Board Response:**

Appropriate, PERAC-recommended account numbers will be used in the future.

**12. Accounting: Accounts Receivable**

The Franklin County Retirement System does not record late appropriations from member units as Accounts Receivable.

**Recommendation:**

At the end of a calendar year, if a member unit has not paid its appropriation on time, an Accounts Receivable is set up to record the amount that was not paid on time. The appropriations account (4894) is credited and Accounts Receivable (1398) is debited. The amount in Accounts Receivable remains until payment is made. When the payment is made, Cash (1040) is debited for the cash and Accounts Receivable (1398) is credited. If a member unit's payment is late, interest must be charged.

The purpose of this recommendation is to assure proper accounting for appropriations. Reviewers of Franklin County financial statements can quickly determine if the required Fiscal Year Appropriations were met by comparing the value in the Appropriation Account 4895 with the PERAC value based on the funding schedule for Franklin County.

**Board Response:**

Beginning with the restated financial statements for 2003, the Franklin County Retirement System will record late appropriations as accounts receivable.

## Franklin County Retirement System

### **EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT.)**

**FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003**

13. Annuity Reserve Interest

The Annuity Reserve Interest was incorrectly calculated in 2003.

Recommendation:

The Franklin County Retirement System must make correcting entries to the Annuity Reserve Fund and the Annuity Savings Fund for 2003 as well as make an adjusting entry to credit the Annuity Reserve Fund and debit Pension Reserve Fund for the correct entries including interest.

**Board Response:**

At the conclusion of the review of 2003 and prior accounting records by Michael Daley and Todd Hassett of FAA, Inc., the balances in all accounts will be accurate. They will be kept accurate thereafter.

14. Appropriations

During the process of verifying correct appropriation amounts from governmental units, several incorrect entries were made to Appropriation Account 4894. For example; on August 29, 2003 an entry of \$5,955.33 entitled Shelburne – access COLA was booked to #4894, Appropriations

Recommendation:

The Franklin County Retirement System must review all appropriation entries for accuracy and completeness.

**Board Response:**

A review of appropriations billed versus paid has been completed and any shortages found have been collected. Procedures have been implemented to more closely monitor accuracy and completeness.

15. Retirement Option Forms

A. An examination of current retiree's retirement folders revealed department head approval for new retirees is not always sent from the retiree's governmental unit. Seven of twenty-three current retiree folders, or thirty percent, examined in 2004 did not have department head approval. The previous PERAC audit for the period ending December 31, 1999 determined that the retirement system did not require department head approval for new retirees.

B. Based on inspection and inquiry, it was determined that letters are not being sent in a timely manner to PERAC to obtain the Commission's approval to grant payment allowances to retirees. Some of the sampled letters revealed a delay as long as 9 months before calculations were approved by PERAC. The previous PERAC audit, for the period ending December 31, 1999, also determined that the retirement system was making payments to retirees before PERAC approved these payments.

## Franklin County Retirement System

### **EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT.)**

**FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003**

#### **Recommendations:**

A. Review procedures for department head approval and salary verification when members request retirement. A letter must be sent to all governmental units not complying advising them that department head approval is necessary when individuals fill out requests for retirement forms. The purpose of department head approval is to make sure the supervisor is aware of the employee's intent to retire and to verify three year wages used to calculate the retirees pension.

B. The system must send approval letters in a timely fashion to PERAC to verify retirement calculations as well as wait until PERAC reviews and grants approval before payment is made to the retiree.

#### **Board Response:**

Procedures are being reviewed and changes will be implemented to properly seek department head approval and salary verification. Calculation approval from PERAC is now being sought more timely and the system no longer makes payment to retirees until approval is received from PERAC.

#### **16. Affidavits**

Sampled signatures on Benefit Verification Affidavits contain questionable retiree signatures as well as Power of Attorney authorizations without the signatures of named individuals on the documents.

#### **Recommendation:**

There should be some certification of a retiree's signature; more importantly, any power of attorney, legal guardianship, representative or any other legally binding declaration should have the signature of the named legal representative in the retiree's file. PERAC auditors recommend the Board require that, in 2006, a Notary Public certify all Benefit Verification Affidavits.

#### **Board Response:**

Procedures for reviewing affidavits have been examined and adjusted to comply with legal requirements as well as published PERAC regulations. This includes a provision for internal audit and review of a sampling of affidavits to insure proper procedures have been followed.

#### **17. Review of Minutes**

A. A review of the minutes revealed that several Board members had a greater than twenty-five percent absentee rate during the 4-year audit period. The absentee percentages for the audit years ranged from approximately twenty-seven percent to thirty-eight percent.

B. There are numerous instances where minutes have not been signed.

C. A review of the Executive Session minutes revealed that either some minutes are missing or that those minutes were never written.

D. There were several instances where meetings either were not held or minutes were not produced.

## Franklin County Retirement System

### **EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT.)**

**FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003**

#### **Recommendations:**

- A. Board members are expected to attend all scheduled Board meetings. The Board may want to consider changing the times of Board meetings in order to accommodate Board member's schedules. In addition, since the retirement system has adopted an annual stipend for service, the Board may want to consider adopting a supplemental regulation making payment of the stipend subject to reasonable attendance at Board meetings. An absentee rate that exceeds twenty- five percent is not considered reasonable.
- B. Although the signing of the minutes does not threaten the integrity of the administration of the Retirement System and actions taken by the Board, the Board members should attest to the minutes by their signature.
- C. An effort should be made to, at the very least, search for those missing executive session meeting minutes
- D. It should be verified that meetings were either held or not held. In addition, if the meetings were held, an attempt to locate those meeting minutes should be done.

#### **Board Response:**

- A. An internal review of meeting attendance did not mirror the results stated here. In addition, in the two years since the audit period, attendance is greater than stated here. Let it be noted, the Board feels that meeting attendance alone is not a full measure of commitment and effort, as it does not reflect energy given to the system through one-on-one meetings with staff, units, banks, investment managers and members. Board members make themselves available at times that are not during monthly meetings, and there is no formal way to track that extra effort.
- B. The signing of minutes is now consistent and accurate relative to attendance. Board members not at the related meeting are not part of voting acceptance and signing the minutes.
- C. A cursory search for the mentioned minutes for Executive Sessions has been done with mixed results. System staff will do a more thorough search when time avails, and until then, are keeping a watchful eye for the missing minutes.
- D. Postponed or cancelled meetings are now noted in the permanent record of meeting minutes as they occur.

#### 18. **Military Service**

On February 24, 2003, PERAC notified all Retirement Boards that "as of April 1, 2003, any member in service who qualifies as a "veteran" can purchase up to four years of creditable service for his or her military service". Also, "Retirement Boards must ensure that all eligible new members and all eligible members with less than ten years of creditable service are notified of this option and given 180 days to determine whether or not to purchase this creditable service". The Franklin County Retirement Board did not notify veterans of this notice until December 15, 2004, a full 21 months after the issuance of the PERAC notification.

## Franklin County Retirement System

### **EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT.)**

**FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003**

#### **Recommendation:**

The Board is obligated to make sure that all PERAC memos and notifications are sent out to retirement system members in a timely manner. In this case, with one month to spare, after neglecting to notify veterans for 21 months and before retiring, the Franklin County Executive Director finally notified veterans of the 180-day requirement just before he himself purchased 3 years and 11 months of military service. The Board must review all eligible veterans within this timeframe to make sure the correct amount of creditable service is given for military service.

#### **Board Response:**

This is a recognized issue. The Board regrets the delay mentioned here and has taken steps to avoid a repeat of this type of issue.

#### **19. Contribution Rates**

A. Based on inspection and inquiry, it was determined that the Franklin County Regional Retirement Board lacks a uniform method of correctly reporting monthly membership payroll. The Franklin County Regional Retirement Board administers forty (40) governmental units. Many do not report "Other Earnings" which makes it impossible to determine if "Regular Earnings" is exclusive of earnings not subject to pension deductions such as Overtime or Police Detail pay.

B. A sample of contribution rates and 2% over \$30,000 calculations revealed errors that need correction, there may be other issues with the membership contribution rates, as referenced in the report of actuarial data for active and retiree/survivor generated by PERAC. This PERAC report has not been reviewed for any other possible errors that have been identified.

#### **Recommendations:**

A. Reporting of member contributions should be made on a prescribed form for all member units. The prescribed form should be consistent with G.L. c. 32 § 22(1)(h) and include the following member information: 1) name; 2) social security number or employee number; 3) compensation by type: total, regular, overtime, and 2% excess; 4) contribution amount; 5) contribution rate; and 6) any other member information deemed appropriate.

B. Membership records should be reviewed by the Director to determine the accuracy of the PERAC report of actuarial data for active and retiree/survivor contribution rates. This review should also include the 2% over \$30,000 contributions.

#### **Board Response:**

This is a recognized issue. Procedures will be implemented to insure that unit treasurers adhere to standard reporting formats. A full review of all membership records is a large project, but it will take place, after which regular monitoring will be done to insure accuracy.

## Franklin County Retirement System

### **EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT.)**

**FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003**

20. **Refunds**

In reviewing the refunds paid, the auditors determined that there is a ten percent error rate in refunding the interest earned. The confusion of the amount of interest refunded or not refunded revolves around the termination versus the resignation status of the member. On the 'Application for Withdrawal of Accumulated Total Deductions' form, the member and the department head have indicated a difference of opinion as to whether the member has resigned or been terminated, thereby affecting the amount of interest to be paid or not to be paid. Terminated members are to receive one hundred percent of their accrued interest.

**Recommendation:**

The retirement system staff should review the files and refunds issued of those members on the warrants from the audit period January 1, 2000 through December 31, 2003. In addition staff should review these files in 2004 and 2005 as well in order to identify other corrections that may be necessary. The 'Notification of Separation From Service' form should be utilized with all retirement system units.

**Board Response:**

This is a recognized issue and has been corrected. Now when discrepancies are present, system staff contact the unit treasurer and the member to resolve the difference.

**Final Determination**

***PERAC audit staff will follow-up in six (6) months to ensure appropriate actions have been taken regarding all findings.***

# Franklin County Retirement System

## STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2000  
AND ENDING DECEMBER 31, 2003**

<b>FOR THE PERIOD ENDING DECEMBER 31,</b>				
<b>ASSETS</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
Cash	\$3,191,935	\$3,114,474	\$2,762,111	\$3,492,873
Short Term Investments	0	0	0	0
Fixed Income Securities	0	10,035,141	10,676,548	10,170,088
Equities	20,681,720	15,748,053	18,753,343	17,833,373
Pooled Domestic Fixed Income Funds	18,714,585	7,619,510	6,907,678	6,366,855
Pooled Real Estate Funds	2,225,488	2,114,236	2,068,272	0
Pooled International Balanced Funds	4,506,469	2,478,088	2,686,766	3,401,233
Interest Due and Accrued	0	68,370	122,614	140,024
Accounts Receivable	205,202	127,316	123,620	139,688
Accounts Payable	(3,394)	(6,563)	(288,217)	0
<b>TOTAL</b>	<b><u>\$49,522,005</u></b>	<b><u>\$41,298,625</u></b>	<b><u>\$43,812,737</u></b>	<b><u>\$41,544,134</u></b>
<b>FUND BALANCES</b>				
Annuity Savings Fund	\$16,606,607	\$15,899,067	\$12,878,150	\$13,812,870
Annuity Reserve Fund	4,581,772	4,146,927	4,154,221	3,221,497
Pension Fund	6,410,761	5,739,034	5,380,618	5,380,618
Military Service Fund	0	0	0	0
Expense Fund	0	0	0	0
Pension Reserve Fund	21,922,865	15,513,596	21,399,747	19,129,149
<b>TOTAL</b>	<b><u>\$49,522,005</u></b>	<b><u>\$41,298,625</u></b>	<b><u>\$43,812,737</u></b>	<b><u>\$41,544,134</u></b>



# Franklin County Retirement System

## STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2000  
AND ENDING DECEMBER 31, 2003**

	<b>Annuity Savings Fund</b>	<b>Annuity Reserve Fund</b>	<b>Pension Fund</b>	<b>Military Service Fund</b>	<b>Expense Fund</b>	<b>Pension Reserve Fund</b>	<b>Total All Funds</b>
<b>Beginning Balance (2000)</b>	\$12,924,908	\$3,006,547	\$5,187,585	\$0	\$0	\$18,796,118	<b>\$39,915,158</b>
Receipts	2,252,238	93,052	2,476,123	0	354,294	330,011	<b>5,505,719</b>
Interfund Transfers	(505,949)	499,575	(744)	0	0	3,020	<b>(4,097)</b>
Disbursements	<u>(858,328)</u>	<u>(377,679)</u>	<u>(2,282,346)</u>	<u>0</u>	<u>(354,294)</u>	<u>0</u>	<b><u>(3,872,648)</u></b>
<b>Ending Balance (2000)</b>	<b>13,812,870</b>	<b>3,221,495</b>	<b>5,380,618</b>	<b>0</b>	<b>0</b>	<b>19,129,149</b>	<b>41,544,131</b>
Receipts	2,318,824	0	3,056,790	0	442,104	6,650,750	<b>12,468,467</b>
Interfund Transfers	(683,109)	1,033,768				(350,660)	<b>0</b>
Disbursements	<u>(732,531)</u>	<u>(428,316)</u>	<u>(2,763,301)</u>	<u>0</u>	<u>(442,104)</u>	<u>(5,833,612)</u>	<b><u>(10,199,864)</u></b>
<b>Ending Balance (2001)</b>	<b>14,716,053</b>	<b>3,826,947</b>	<b>5,674,107</b>	<b>0</b>	<b>0</b>	<b>19,595,627</b>	<b>43,812,734</b>
Receipts	2,443,447	125,122	3,003,992	0	447,379	4,247,607	<b>10,267,548</b>
Interfund Transfers	(675,075)	668,860				6,215	<b>0</b>
Disbursements	<u>(585,358)</u>	<u>(474,005)</u>	<u>(2,939,064)</u>	<u>0</u>	<u>(447,379)</u>	<u>(8,335,853)</u>	<b><u>(12,781,659)</u></b>
<b>Ending Balance (2002)</b>	<b>15,899,067</b>	<b>4,146,925</b>	<b>5,739,034</b>	<b>0</b>	<b>0</b>	<b>15,513,596</b>	<b>41,298,623</b>
Receipts	2,475,094	149,419	3,783,139	0	427,897	6,257,853	<b>13,093,402</b>
Interfund Transfers	(1,035,029)	1,033,032				1,996	<b>0</b>
Disbursements	<u>(732,525)</u>	<u>(598,187)</u>	<u>(3,111,413)</u>	<u>0</u>	<u>(427,897)</u>	<u>0</u>	<b><u>(4,870,022)</u></b>
<b>Ending Balance (2003)</b>	<b><u>\$16,606,607</u></b>	<b><u>\$4,731,189</u></b>	<b><u>\$6,410,761</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$21,773,446</u></b>	<b><u>\$49,522,003</u></b>

# Franklin County Retirement System

## STATEMENT OF INCOME

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2000  
AND ENDING DECEMBER 31, 2003**

	<b>FOR THE PERIOD ENDING DECEMBER 31,</b>			
	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
<b>Annuity Savings Fund:</b>				
Members Deductions	\$2,124,555	\$2,066,597	\$1,938,361	\$1,723,676
Transfers from other Systems	131,014	75,609	329,236	225,150
Member Make Up Payments and Redeposits	72,742	101,655	51,312	42,820
Investment Income Credited to Member Accounts	146,784	199,586	250,870	260,592
<b>Sub Total</b>	<b><u>2,475,094</u></b>	<b><u>2,443,447</u></b>	<b><u>2,569,779</u></b>	<b><u>2,252,238</u></b>
<b>Annuity Reserve Fund:</b>				
Investment Income Credited Annuity Reserve Fund	<u>149,419</u>	<u>125,002</u>	<u>101,049</u>	<u>93,054</u>
<b>Pension Fund:</b>				
3 (8) (c) Reimbursements from Other Systems	108,877	123,179	90,665	93,844
Received from Commonwealth for COLA and Survivor Benefits	174,616	174,168	203,301	223,377
Pension Fund Appropriation	<u>3,499,647</u>	<u>2,706,645</u>	<u>2,762,824</u>	<u>2,158,902</u>
<b>Sub Total</b>	<b><u>3,783,139</u></b>	<b><u>3,003,992</u></b>	<b><u>3,056,790</u></b>	<b><u>2,476,123</u></b>
<b>Military Service Fund:</b>				
Contribution Received from Municipality on Account of Military Service	0	0	0	0
Investment Income Credited Military Service Fund	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Sub Total</b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>0</u></b>
<b>Expense Fund:</b>				
Expense Fund Appropriation	0	0	0	0
Investment Income Credited to Expense Fund	<u>427,897</u>	<u>447,379</u>	<u>442,103</u>	<u>350,197</u>
<b>Sub Total</b>	<b><u>427,897</u></b>	<b><u>447,379</u></b>	<b><u>442,103</u></b>	<b><u>350,197</u></b>
<b>Pension Reserve Fund:</b>				
Federal Grant Reimbursement	29,792	44,584	32,942	33,017
Pension Reserve Appropriation	0	0	0	0
Interest Not Refunded	11,843	11,630	15,948	17,231
Miscellaneous Income	791	5,111	0	0
Excess Investment Income	6,215,427	(4,149,450)	353,663	279,764
<b>Sub Total</b>	<b><u>6,257,853</u></b>	<b><u>(4,088,125)</u></b>	<b><u>402,553</u></b>	<b><u>330,011</u></b>
<b>TOTAL RECEIPTS</b>	<b><u>\$13,093,402</u></b>	<b><u>\$1,931,695</u></b>	<b><u>\$6,572,274</u></b>	<b><u>\$5,501,624</u></b>

# Franklin County Retirement System

## STATEMENT OF DISBURSEMENTS

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2000  
AND ENDING DECEMBER 31, 2003**

<b>FOR THE PERIOD ENDING DECEMBER 31,</b>				
<b>Annuity Savings Fund:</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
Refunds to Members	\$396,389	\$334,047	\$362,631	\$475,601
Transfers to other Systems	<u>336,136</u>	<u>251,311</u>	<u>369,120</u>	<u>382,726</u>
<b>Sub Total</b>	<b><u>732,525</u></b>	<b><u>585,358</u></b>	<b><u>731,751</u></b>	<b><u>858,328</u></b>
<b>Annuity Reserve Fund:</b>				
Annuities Paid	551,343	472,025	427,506	375,583
Option B Refunds	<u>46,844</u>	<u>1,979</u>	<u>814</u>	<u>2,096</u>
<b>Sub Total</b>	<b><u>598,187</u></b>	<b><u>474,005</u></b>	<b><u>428,320</u></b>	<b><u>377,679</u></b>
<b>Pension Fund:</b>				
Pensions Paid				
Regular Pension Payments	2,643,287	2,248,463	2,052,529	1,859,471
Survivorship Payments	134,055	125,937	127,360	120,457
Ordinary Disability Payments	7,235	6,830	12,338	12,021
Accidental Disability Payments	122,688	119,453	118,299	116,776
Accidental Death Payments	47,993	57,364	59,914	68,762
Section 101 Benefits	0	0	0	0
3 (8) (c) Reimbursements to Other Systems	156,155	381,018	392,862	104,859
State Reimbursable COLA's Paid	0	0	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Sub Total</b>	<b><u>3,111,413</u></b>	<b><u>2,939,064</u></b>	<b><u>2,763,301</u></b>	<b><u>2,282,346</u></b>
<b>Military Service Fund:</b>				
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expense Fund:</b>				
Board Member Stipend	15,000	15,000	15,115	14,313
Salaries	123,831	114,422	105,229	84,205
Legal Expenses	7,811	3,404	3,745	4,838
Medical Expenses	0	0	0	0
Travel Expenses	2,599	6,187	5,540	5,939
Administrative Expenses	65,578	68,412	65,174	64,773
Furniture and Equipment	200	257	15,087	2,171
Management Fees	184,877	206,697	204,213	151,290
Custodial Fees	8,000	8,000	8,000	6,765
Consultant Fees	<u>20,000</u>	<u>25,000</u>	<u>20,000</u>	<u>20,000</u>
<b>Sub Total</b>	<b><u>427,897</u></b>	<b><u>447,379</u></b>	<b><u>442,103</u></b>	<b><u>354,294</u></b>
<b>TOTAL DISBURSEMENTS</b>	<b><u>\$4,870,022</u></b>	<b><u>\$4,445,806</u></b>	<b><u>\$4,365,475</u></b>	<b><u>\$3,872,648</u></b>

# Franklin County Retirement System

## INVESTMENT INCOME

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2000  
AND ENDING DECEMBER 31, 2003**

<b>FOR THE PERIOD ENDING DECEMBER 31,</b>				
	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
<b>Investment Income Received From:</b>				
Cash	\$41,757	\$49,895	\$88,033	\$111,908
Short Term Investments	0	0	0	0
Fixed Income	550,576	780,170	799,134	1,042,580
Equities	239,935	215,280	232,130	205,996
Pooled or Mutual Funds	0	0	0	266,892
Commission Recapture	28,144	23,745	0	0
<b>TOTAL INVESTMENT INCOME</b>	<b><u>860,413</u></b>	<b><u>1,069,091</u></b>	<b><u>1,119,297</u></b>	<b><u>1,627,377</u></b>
<b>Plus:</b>				
Realized Gains	1,959,716	744,046	1,776,295	2,464,521
Unrealized Gains	5,882,477	2,373,266	3,657,510	2,881,643
Interest Due and Accrued on Fixed Income Securities - Current Year	0	68,370	122,614	140,024
<b>Sub Total</b>	<b><u>7,842,193</u></b>	<b><u>3,185,682</u></b>	<b><u>5,556,420</u></b>	<b><u>5,486,188</u></b>
<b>Less:</b>				
Paid Accrued Interest on Fixed Income Securities	(80,078)	(66,696)	(71,885)	(88,917)
Realized Loss	(793,195)	(3,671,755)	(1,802,650)	(2,588,956)
Unrealized Loss	(889,807)	(3,771,192)	(3,513,473)	(3,213,483)
Interest Due and Accrued on Fixed Income Securities - Prior Year	(68,370)	(122,614)	(140,024)	(238,601)
<b>Sub Total</b>	<b><u>(1,831,450)</u></b>	<b><u>(7,632,257)</u></b>	<b><u>(5,528,032)</u></b>	<b><u>(6,129,958)</u></b>
<b>NET INVESTMENT INCOME</b>	<b><u>6,871,156</u></b>	<b><u>(3,377,483)</u></b>	<b><u>1,147,686</u></b>	<b><u>983,607</u></b>
<b>Income Required:</b>				
Annuity Savings Fund	146,784	199,586	250,870	260,592
Annuity Reserve Fund	149,419	125,002	101,049	93,054
Military Service Fund	0	0	0	0
Expense Fund	427,897	447,379	442,103	350,197
<b>TOTAL INCOME REQUIRED</b>	<b><u>724,099</u></b>	<b><u>771,967</u></b>	<b><u>794,022</u></b>	<b><u>703,843</u></b>
Net Investment Income	<u>6,871,156</u>	<u>(3,377,483)</u>	<u>1,147,686</u>	<u>983,607</u>
Less: Total Income Required	<u>724,099</u>	<u>771,967</u>	<u>794,022</u>	<u>703,843</u>
<b>EXCESS INCOME TO THE PENSION RESERVE FUND</b>	<b><u>\$6,147,057</u></b>	<b><u>(\$4,149,450)</u></b>	<b><u>\$353,663</u></b>	<b><u>\$279,764</u></b>

## Franklin County Retirement System

### **STATEMENT OF ALLOCATION OF INVESTMENTS OWNED**

(percentages by category)

**FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003**

	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash	\$3,191,935	6.47%	100
Short Term	0	0.00%	100
Fixed Income	0	0.00%	40 - 80
Equities	20,681,720	41.93%	40
Pooled Domestic Fixed Income Funds	18,714,585	37.95%	
Pooled Real Estate Funds	2,225,488	4.51%	
Pooled International Balanced Funds	4,506,469	9.14%	
<b>GRAND TOTALS</b>	<b><u>\$49,320,196</u></b>	<b><u>100.00%</u></b>	

For the year ending December 31, **2003**, the rate of return for the investments of the **Franklin County** Retirement System was 17.08%. For the five-year period ending December 31, **2003**, the rate of return for the investments of the **Franklin County** Retirement System averaged 4.16%. For the nineteen-year period ending December 31, **2003**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Franklin County** Retirement System was 9.83%.

## **Franklin County Retirement System**

### **SUPPLEMENTARY INVESTMENT REGULATIONS**

**FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003**

The **Franklin County** Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on :

October 8, 1997

20.03(1)      Equity investments shall not exceed 60% of the total market value of the portfolio at the time of purchase.

## **Franklin County Retirement System**

### **NOTES TO FINANCIAL STATEMENTS**

**FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003**

#### **NOTE 1 - THE SYSTEM**

The plan is a contributory defined benefit plan covering all **Franklin County** Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

## **Franklin County Retirement System**

### **NOTES TO FINANCIAL STATEMENTS (Continued)**

#### **FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003**

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

#### **NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.



## Franklin County Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

#### FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

#### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The **Franklin County** Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

December 29, 1987:

1. Membership. The Board considers a part-time, part-time permanent, temporary provisional, seasonal or intermittent employee eligible for membership in the retirement system whose base pay is at least \$200.00 per year, unless waived by the board. Anyone earning at least \$2,000.00 annually must become a member. REVISED by rule approved November 27, 1989 retroactive to July 1, 1988.

## Franklin County Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

#### FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

2. Creditable Service. A part-time, part-time permanent, temporary, provisional, temporary provisional, seasonal or intermittent employee receiving weekly or monthly salaries or wages for prescribed periods of employment be given creditable service based on actual service rendered, provided that in the case of any such employee whose work is found by the board to be seasonal in its nature, the board shall credit as the equivalent of one year of service actual full time service of not less than seven months during any one calendar year.

Definition: A day to be based on a seven and one half hour period of employment.

3. Section 12B Benefits. The total annual allowance derived from and payable under the provisions of Chapter 32 of the General Laws, § 12B shall at no time be greater than the annual rate of regular compensation payable to such member on the date of his death, and that is the case of call firefighters, special police and part-time workers, that the annual rate of regular compensation be considered the earnings of the member for the twelve months immediately preceding his death.

4. Membership. To allow any cafeteria worker who works five hours or more per day be considered a full-time employee and eligible for membership in the retirement system. And further any employee who earns \$200.00 annually is considered eligible for membership.

5. Membership. Teacher aids that earn \$200.00 or more annually shall be eligible for membership.

6. Membership. Those employees whose compensation is derived from federal grants.

7. Eligibility for Superannuation /Interest on Refunds. An employee who becomes a member after January 1, 1978 must have 10 years of creditable service to be eligible for a retirement allowance and also that an employee who becomes a member after January 1, 1984 and has less than 60 months of creditable service shall receive no interest on the return of their deductions. For employees hired after January 1, 1984 who request a refund, they shall receive 50% of interest after 5 years of creditable service and 100% of interest after 10 years of creditable service.

8. Membership Elected officials who receive compensation may belong to the retirement System.

November 27, 1989 (retroactive to July 1, 1988):

Membership. The Board considers a full-time employee earning regular compensation, a part-time permanent, temporary, provisional, temporary provisional, seasonal or intermittent employee eligible for membership in the retirement system whose base pay is at least \$200.00 per year, unless waived by the board. Anyone earning at least \$2,000.00 annually must become a member of the system.

Retirement deductions will not be taken on overtime payments. (Revision of Rule #1 originally submitted December 29, 1987).

## Franklin County Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

#### FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

2. Regular Compensation. Retirement deductions will be taken from all compensation paid for services by a town warrant if an employee is a member of the retirement system.

March 19, 1991 (to be effective July 1, 1991). NOTE: Rules 1-5 approved March 19, 1991 supersede rules 1- 9 submitted December 29, 1987 ;

1. Membership. Any employee earning compensation, including recipients of federal grant funding who are not covered by Teachers' Retirement must belong to the retirement system. Retirement deductions will be taken from all compensation paid for services by a town payroll warrant except for overtime payments and police off-duty detail work. REVISED by rule approved March 19, 1993.

2. Creditable Service. An employee receiving a salary or wage for prescribed periods of employment be given creditable service based on actual service rendered, provided that in the case of any employee whose work is found by the board to be seasonal in nature, the board shall credit as the equivalent of one year of service actual full time service of not less than seven months during any one calendar year. Settlement of small allowance in one sum shall be as provided in G.L. c. 32, § 13. REVISED by rule approved December 17, 1992.

3. Section 12B Benefits. The total annual allowance derived from and payable under the provisions of Chapter 32 of the General Laws, § 12B shall at no time be greater than the annual rate of regular compensation payable to such member on the date of his death, and that is the case of call firemen, special police and part-time workers, that the annual rate of regular compensation be considered the earnings of the member for the twelve months immediately preceding his death. REVISED by rule approved March 19, 1993.

4. Eligibility for Superannuation /Interest on Refunds. An employee who becomes a member after January 1, 1978 must have 10 years of creditable service to be eligible for a retirement allowance and also provides that an employee who becomes a member after January 1, 1984 and has less than 60 months of creditable service shall receive no interest on the return of their deductions. For employees hired after January 1, 1984, you will receive 50% interest after 5 years of creditable service. You will receive 100% interest after 10 years of creditable service. REVISED by rule approved March 19, 1993.

5. Contribution Rates. Employees who became members prior to January 1, 1975 contribute 5% of their regular compensation. Employees whose membership commenced on or after January 1, 1975 but prior to January 1, 1984 must contribute 7%. Those employees whose membership begins on or after January 1, 1984 must contribute 8%. (Resubmitted and reapproved December 17, 1992 and March 19, 1993).

December 17, 1992:

1. Creditable Service. An employee, either full time or part time, receiving a salary or wage for prescribed periods of employment is to be given creditable full time service retroactive to the date of service (Retroactive clause is effective for all members active on or after February 27, 1997). . Settlement of small allowance in one sum shall be as provided in G.L. c. 32, § 13. (Revision of Rule #2 previously approved March 19, 1991. Resubmitted and reapproved March 19, 1993)

## Franklin County Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

#### FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

March 19, 1993:

1. Membership. All full time employees, part time employees working 20 or more hours on a regular basis and all recipients of federal grant funding must belong to the retirement system. Employers may offer all other employees receiving compensation the option of joining the retirement system. Retirement deductions will be taken from all regular compensation as defined in G.L. c. 32 § 1 but that regular compensation shall not include overtime payments and police off-duty detail work.

Treasurers are obligated to ensure that all employees participate in a qualified pension plan. The treasurer must enroll the employee either in a deferred compensation plan, county retirement system or social security. (Revision of Rule #1 originally approved March 19, 1991)

2. Member-Survivor Allowances. The total allowance payable under §12(2)(d) together with any allowance payable under § 12B shall at no time be greater than the annual rate of regular compensation payable to such member on the date of his death. (Revision of Rule #3 originally approved March 19, 1991)

3. Eligibility for Superannuation /Interest on Refunds. An employee who becomes a member after January 1, 1978 must complete 10 years of creditable service to be eligible for a retirement allowance. An employee who becomes a member after January 1, 1984 and has less than 60 months of creditable service shall receive no interest on the return of their deductions. You will receive 50% interest after 5 years of creditable service. You will receive 100% interest after 10 years of creditable service. Employees whose withdrawal from service is not voluntary shall receive 100% interest. (Revision of Rule #4 originally approved March 19, 1991)

December 18, 1995:

1. Eligibility for Membership/Buy Backs. All permanent employees working 20 or more hours per week must become members of the system. Temporary or part time employees hired after 1/1/96 who later becomes eligible for membership shall have the option of buying back creditable service time at the rate proportionate to actual time worked. (Revision of Rule #1 originally approved March 19, 1991 and amended by rule approved March 19, 1993)

March 31, 1997:

1. Creditable Service. An employee, either full time or part time, receiving a salary or wage for prescribed periods of employment is to be given creditable full time service retroactive to the date of service (Retroactive clause is effective for all members active on or after February 27, 1997). Settlement of small allowance in one sum shall be as provided in G.L. c. 32, § 13. (Revision of Rule #2 previously approved March 19, 1991. Resubmitted and re-approved March 19, 1993) (Underscored language added by request approved March 31, 1997).

## Franklin County Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

#### FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

##### NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the Finance Director, FRCOG, who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: Patricia Auchard

Appointed Member: Herbert Sanderson                      Term Expires: 10/30/05

Elected Member: Sandra Hanks                              Term Expires: 1/1/06

Elected Member: David Gendron                            Term Expires: 1/1/08

Appointed Member: Paul Mokrzecki                        Term Expires: Indefinite

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:	)	Fiduciary Liability
Ex officio Member:	)	\$50,000,000
Elected Member:	)	Comm Crime/Employee Dishonesty
Appointed Member:	)	\$1,000,000
Staff Employee:	)	

# Franklin County Retirement System

## NOTES TO FINANCIAL STATEMENTS (Continued)

**FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003**

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by **Stone Consulting, Inc.** as of **January 1, 2003**.

The actuarial liability for active members was	\$39,043,124
The actuarial liability for retired members was	<u>33,726,854</u>
The total actuarial liability was	<b>72,769,978</b>
System assets as of that date were	<u>41,298,625</u>
The unfunded actuarial liability was	<b><u>\$31,471,353</u></b>
The ratio of system's assets to total actuarial liability was	56.8%
As of that date the total covered employee payroll was	\$23,638,002

The normal cost for employees on that date was 8.20% of payroll

The normal cost for the employer was 4.90% of payroll

The principal actuarial assumptions used in the valuation are as follows:

**Investment Return:** 8.00% per annum

**Rate of Salary Increase:** 4.75% per annum

### GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2003 (000s)

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as a % of Cov. Payroll ( (b-a)/c )
1/1/2003	\$41,299	\$72,770	\$31,471	57%	\$23,638	133%
1/1/2001	\$42,002	\$57,235	\$15,233	73%	\$17,923	85%
1/1/1998	\$41,568	\$64,535	\$22,967	64%	\$15,254	151%
1/1/1995	\$24,578	\$49,024	\$24,446	50%	\$11,638	210%

## Franklin County Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

**FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003**

#### NOTE 6 - MEMBERSHIP EXHIBIT

<b>Retirement in Past Years</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Superannuation	-	-	10	10	17	0	5	28	25	36
Ordinary Disability	-	-	1	1	0	0	0	0	0	0
Accidental Disability	-	-	0	0	0	0	0	0	0	0
<b>Total Retirements</b>	-	-	<b>11</b>	<b>11</b>	<b>17</b>	<b>0</b>	<b>5</b>	<b>28</b>	<b>25</b>	<b>36</b>
Total Retirees, Beneficiaries and Survivors	-	299	331	334	316	319	341	360	391	406
<b>Total Active Members</b>	-	3,573	3,035	3,035	2,715	2,719	2,669	2,607	2,275	2,134
<b>Pension Payments</b>										
Superannuation	\$1,293,067	\$1,357,365	\$1,447,002	\$1,549,268	\$1,373,184	\$1,686,416	\$1,859,471	\$2,052,529	\$2,248,463	\$2,643,287
Survivor/Beneficiary Payments	147,634	145,372	132,839	115,709	326,761	119,715	120,457	127,360	125,937	134,055
Ordinary Disability	8,763	10,762	13,416	14,600	5,989	6,126	12,021	12,338	6,830	7,235
Accidental Disability	66,139	114,591	93,689	119,425	112,432	113,422	116,776	118,299	119,453	122,688
Other	432,249	384,828	386,182	60,061	66,159	67,237	68,762	59,914	57,364	47,993
<b>Total Payments for Year</b>	<b><u>\$1,947,852</u></b>	<b><u>\$2,012,918</u></b>	<b><u>\$2,073,128</u></b>	<b><u>\$1,859,063</u></b>	<b><u>\$1,884,525</u></b>	<b><u>\$1,992,916</u></b>	<b><u>\$2,177,487</u></b>	<b><u>\$2,370,440</u></b>	<b><u>\$2,558,047</u></b>	<b><u>\$2,955,258</u></b>

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